MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2022/2023 (TERM ID 2215)

DFA5044 – FINANCIAL ACCOUNTING 4

(All Sections / Groups)

23 FEBRUARY 2023
9.00 a.m. to 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 8 pages with 4 questions.
2. Write your answers in the answer booklet provided.
3. Answer ALL questions.

QUESTION 1

Part A

In 2022, Malaysia (Initial public offering) IPO market increased due to investors' demand for good fundamental companies. Infomina Bhd, a regional technology solutions provider that is en route to a listing on Bursa Malaysia's ACE Market on 25 November 2022. The company decided to invite public to subscribe their preference and ordinary shares.

Given below are the company's transactions related to the issuance of new shares for the year 2022.

1. Received 15,000,000 applications 6% preference shares issue at RM0.60 each. All the preference shares were fully subscribed and fully paid.

2. 36,000,000 applications on ordinary shares were received. The company issues 25,000,000 ordinary shares at RM1.40 on the following terms:

On application	RM0.20
On allotment	RM0.30
On 1st call	RM0.50
On 2nd call	RM0.40

3. The directors rejected 30 percent of the oversubscribe applications and allotted the shares on a pro-rata basis among the remaining applicants. Any surplus money on application was used to pay up on allotment.

4. All monies due on the allotment have been received.

5. On 1st call on the ordinary shares, a shareholder with 500,000 shares paid the 2nd call money at the same time as the 1st call; and another shareholder with 600,000 shares failed to pay the 1st call when requested by the company.

6. During 2nd and final calls, all the monies have been received except two shareholders with 200,000 shares each still fail to pay the 2nd and final calls money.

Required

(a) Prepare the journal entries to record the above transactions. (14 marks)

(b) Prepare the extract Statement of Financial Position after the 1st call. (3.5 marks)

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Part B

GHL Systems Berhad. is the leading payment solutions provider which is a one stop provider for both offline and online payment solutions, empowering businesses across ASEAN. In the era of Industrial Revolution 4, the demand for online payment solutions increases tremendously and the company gains huge profit in 2022.

The company's issued share capital is 1,000,000 ordinary shares of RM1 each and its reserve consists of general reserve account and profit and loss account at the value of RM50,000 and RM340,000 respectively.

GHL Systems Berhad. declares a 1 for 5 bonus issue. The bonus is to be made out of the general reserves account, and if the general reserves is insufficient then the profit and loss account is to be utilised for the bonus issue.

Required

(a) Prepare the journal entries to record the bonus issue. (2.5 marks)

(b) Prepare an extract of the Statement of Financial Position after the bonus issue. (2 marks)

Part C

A company that permits the issuance of redeemable preference shares has an obligation to redeem the redeemable preference shares it issues at a specified or determinable date. Depending on the financial position of the company, it may redeem the shares by three general methods.

Required

Identify and briefly explain the **THREE (3)** methods used to redeem redeemable preference shares. (3 marks)

(Total: 25 marks)

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QUESTION 2

Part A

The account balances for SWS Corporation as at 31 May 2020 is as follows:

Land and building	RM280,000	
Plant and machinery	180,000	
Accumulated depreciation – Plant and machinery		RM22,000
Motor vehicle	125,000	
Accumulated depreciation – Motor vehicle		30,000
Investment	70,000	
Goodwill	40,000	
Cash	38,000	
Trade receivables	56,000	
Prepaid utilities	6,000	
Inventories	55,000	
200,000 5% Preference shares of RM1.25 each		250,000
400,000 Ordinary shares of RM1.40 each		560,000
General reserve		50,000
Accumulated profit and loss	190,000	
8% debentures		40,000
Director's loan		25,000
Bank overdraft		20,000
Trade payables		28,000
Rental payables		15,000
	RM1,040,000	**RM1,040,000**

Additional information:

a. Arrears on preference dividend worth RM38,000.
b. Contingent liability for damages of RM12,000 has not been provided.

SWS Corporation suffered a great loss for the past three consecutive years due to pandemics Covid 19. Therefore, SWS Corporation passes special resolution, and the approval of the court was obtained for the following scheme of internal reconstruction:

1. The preference share is to be reduced by RM0.75 each, while ordinary share is to be reduced to RM0.60 each. The existing ordinary shareholders have agreed to take up one fully paid ordinary shares for every 1 held.
2. Part of the cash raised by this issue is to be used to settle the bank overdraft and 50% of trade payables.

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3. The preference shareholders to receive two ordinary shares of RM0.60 each for every RM1 preference dividends in arrears.

4. The assets are revalued as follow:

Plant and machinery	RM147,000
Land and building	300,000
Motor vehicles	70,000
Investments	80,000
Trade receivables	35,500
Inventories	37,000

5. To write off 80% of the accumulated profit and loss and goodwill.
6. 20% of director's loan is to be paid by cash and 30% is to be canceled. The balance is to be settled by the issuance of ordinary shares of RM0.60 each.
7. Three quarter of the general reserve is to be used for the scheme.
8. Investments are sold at its market value after it is being revalued.
9. The company settled half of its contingent liability.
10. Cost of reconstruction amounted to RM8,500 is to be paid by cash.
11. To record any surplus or deficiency on capital reduction account.

Required

(a) Prepare the journal entries to record the capital reduction. (19 marks)

(b) Prepare the ledger ordinary shares capital after the internal reconstruction. (3 marks)

Part B

Section 115 A of the Companies Act states that any company that undergo internal reconstruction may reduce its capital by either through a special resolution confirmed by the court (Section 116) or through a special resolution supported by a solvency statement from all directors (Section 117).

Required

Indicate any **SIX (6)** activities or scheme of internal reconstruction that may be involves in the process of reconstruction after the company passes special resolution and the approval of the court. (3 marks)

(Total: 25 marks)

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QUESTION 3

Part A

Amato and Mecha are partners for A&M Partnership decided to convert their partnership into a limited liability company.

On 1 January 2023, Mechamato Bhd. was formed and to purchase all assets (excluding cash) and liabilities of A&M Partnership. Mechamato Bhd. was to discharge the purchase price by issuing 900,000 units of ordinary shares at RM1.

Below is the Statement of Financial Position of A&M Partnership as at 1 January 2023.

A&M Partnership
Statement of Financial Position as at 1 January 2023

Current Assets		
Cash	RM19,000	
Account receivables	105,000	
Prepaid insurance	25,000	
Inventories	48,000	
		RM197,000
Non-current Assets		
Building		500,000
Office Equipment	128,000	
Less: Accumulated depreciation -Office equipment	22,000	106,000
Motor vehicles	152,000	
Less: Accumulated depreciation – Motor vehicles	44,000	108,000
Total assets		RM911,000
Current liabilities		
Account payables	RM31,000	
Note payables	80,000	
		111,000
Owners' equity		
Capital, Amato	450,000	
Capital, Mecha	350,000	
		800,000
Total liabilities & equity		RM911,000

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Additional information:

i. The fair values of the assets taken over:

Account Receivables	RM94,000
Prepaid Insurance	19,000
Inventories	32,000
Building	555,000
Office Equipment	97,000
Motor Vehicles	140,000

ii. Amato and Mecha share profits and losses equally.
iii. Both agreed to accept equally any cash remaining as part settlement of the amount due to them on liquidation of the company.

Required

(a) Compute the purchase price and goodwill. (3 marks)

(b) Prepare journal entries to close the book of A&M Partnership. (13 marks)

Part B

Answer the following independent questions:

(a) Financial statements included in the annual report consist of directors' report, auditors' report and financial statements. What are the requirement under Section 266(2) of Companies Act 2016 related to auditors' report? (3 marks)

(b) Reserves are profit retained by company and can be classified into revenue reserve and capital reserve. Briefly explain the capital reserve. (3 marks)

(c) The Companies Act 2016 required certain information should be disclose in preparing the annual report. List all disclosures required by the Companies Act 2016. (3 marks)

(Total: 25 marks)

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QUESTION 4

Part A

Given below are the Statement of Financial Position of Cypark Bhd and Nylex Bhd as at 31 December 2022.

Statement of Financial Position as at 31 December 2022

	Cypark Bhd	Nylex Bhd
Current Assets		
Bank	RM50,000	RM60,000
Trade receivables	90,000	50,000
Inventories	60,000	40,000
Total Current Assets	200,000	150,000
Intangible Assets		
Goodwill	40,000	30,000
Property, Plant and Equipment		
Land and building	350,000	200,000
Plant and machinery	110,000	70,000
Total Assets	RM700,000	RM450,000
Current Liabilities		
Trade payables	RM40,000	RM30,000
Non-current Liabilities		
6% debentures	-	50,000
Shareholder's Equity		
Ordinary shares of RM1 per share	500,000	300,000
Profit and loss	160,000	70,000
Total Liabilities and Equity	RM700,000	RM450,000

Additional information:

1. Cypark Bhd is to take over all the assets (except cash at bank) and liabilities of Nylex Bhd as at 31 December 2022 at the following fair values:

	(RM)
Land and building	450,000
Plant and machinery	40,000
Trade receivables	50,000
Inventories	40,000

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2. Cypark Bhd agreed to pay the liquidation expenses of RM10,000 upon absorption of Nylex Bhd.

3. The purchase consideration consists of:
   i. 400,000 ordinary shares in Cypark Bhd at RM1.25 per share.
   ii. RM55,000 4% debentures in Cypark Bhd to discharge the 6% debentures Nylex Bhd at a premium of 10%.

Required

(a) Compute the value of goodwill based on the purchase consideration information given. (4 marks)

(b) Prepare the journal entries to close the books of Nylex Bhd. (13 marks)

(c) Prepare the Statement of Financial Position of Cypark Bhd immediately after the absorption of Nylex Bhd. (5 marks)

Part B

Business combination refers to situations where businesses combine. The combining of separate business entities is an alternative to internal expansion and acquire the benefits from a bigger business unit.

Required

Briefly explain the **THREE (3)** main ways of a business combination. (3 marks)

(Total: 25 marks)

End of Paper